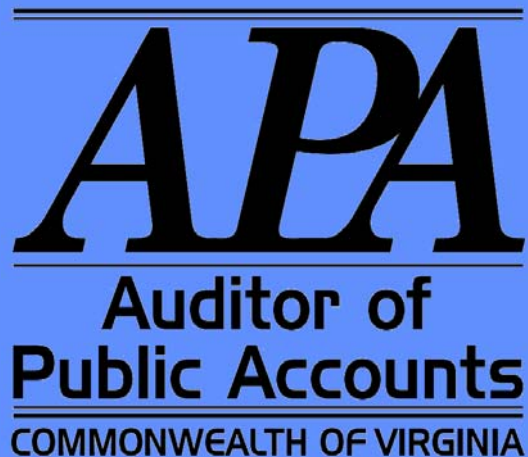


GEORGE MASON UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of George Mason University for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- an internal control matter that we consider to be a significant deficiency; however, we do not consider this to be a material weakness;
- an instance of noncompliance that is required to be reported under Government Auditing Standards; and
- the University has taken adequate corrective action with respect to the audit findings reported in the prior year.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Timeliness of Financial Reporting Controls

Generally accepted auditing standards require the auditor to consider whether a control deficiency exists when the design or operation of a control does not allow management or their employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The standard provides specific indicators the auditor should regard as at least a significant deficiency and a strong indicator of a material weakness in internal control.

During the current reporting period the University made the following prior period adjustments to its financial statements:

- A prior period adjustment for improper matching of revenues and expenses resulting in a \$2.9 million increase in beginning net assets and a current year adjustment to increase revenue and receivables for the same reason in the amount of \$2.3 million; and
- A prior period adjustment to capitalize interest resulting from a cumulative error in Construction in Progress from fiscal year 2004 through 2006 resulting in a \$2.5 million decrease in beginning net assets.

Also, during the audit which we conducted after the University prepared and released its financial statements, the University staff found the financial statements required the following reclassification.

- A reclassification to increase accounts receivable and deferred revenue by \$2.6 million to record summer term revenue earned but not received. The University made this reclassification two months after the audit began and eight months after the fiscal year end.

While any individual issue above may not have warranted concern, the number of changes which occurred after the issuance of the statements indicates a significant need to review the preparation and accuracy of the financial statement process. We recommend that the University's management review the internal controls over financial reporting to ensure that processes are sufficient to address identified risks more timely.

Properly Complete Employment Eligibility Verification Forms

The University is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers. The guidance requires the employee complete, sign and date Section 1 of the I-9 on the first day of employment. Additionally, the employer or designated representative must complete, sign and date Section 2 of the I-9 within three business days of employment.

In our sample of forty-eight forms reviewed for fiscal year 2007, we only found seventeen forms correctly completed. In our sample, we observed the following error rates.

- 40 percent failed to list the first day of employment;
- 19 percent failed to provide sufficient information from the verification documents, such as document number , expiration date, or issuing authority;
- 4 percent failed to have the employee sign and/or date the form on the first date of employment;
- 6 percent were not verified by the Employer within 3 business days of the employment start date;
- 6 percent were signed and dated by the employee after the employment start date;
- 8 percent listed the verification documents in the incorrect sections;
- 2 percent failed to completely fill in the Employer's information; and
- 8 percent of the forms were not found on file for the employee.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resource on the requirements of completing forms and then develop a process for continuously reviewing all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work inside the United States which makes having a good process in place to complete I-9 even more important.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Institutional Profile

Since it was founded in 1972, George Mason University has grown into a major educational force and earned a reputation as an innovative, entrepreneurial institution. Just minutes from Washington, D.C., George Mason has a growing and diverse student body and an exceptional faculty of enterprising scholars. At the center of the world's political, information, and communications networks, George Mason is the university needed by a region and a world driven by new social, economic, and technological realities.

George Mason's development has been shaped in response to the educational needs of its cosmopolitan constituency. The University has gained national distinction in a range of academic fields, including public policy, information technology, economics, the fine and performing arts, law, conflict resolution, and, most recently, the biosciences. Strong alliances with business, the community, and government benefit George Mason's students and the larger society. Enrollment is nearly 30,000, with students studying in 160 degree programs at the undergraduate, master's, doctoral, and professional levels.

George Mason is a distributed university with campuses in Fairfax, Arlington, and Prince William counties. Each campus has a distinctive academic focus that plays a critical role in the economy of its region. At each campus, students and faculty have access to all the University's resources, while duplication of programs and support services is minimized through the use of technology. The University also offers programs on-site in Loudoun County, at the Center for Innovative Technology's Herndon Training Center, at its Ras Al Khaimah campus in the United Arab Emirates, and on the Internet.

Overview of the Financial Statements and Financial Analysis

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and compares the current and prior years.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. This statement is a point of time financial statement. The purpose of the Statement of the Net Assets is to present readers of the financial statements a fiscal snapshot of George Mason University. The Statement of Net Assets presents end-of-year balances of assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the information presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the institution owes vendors and creditors. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, "invested in capital assets, net of related debt," provides the University's equity in the property, plant, and equipment that it owns. The next category is "restricted net assets," which is divided into two subcategories, expendable and nonexpendable. Expendable restricted net assets are available for expenditure by the institution but must be spent as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Nonexpendable restricted net assets consist of endowments and similar funds where donors or other

outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or placed in a reserve fund. The final category is “unrestricted net assets.” Unrestricted net assets are available to the University for any lawful purpose of the institution.

<u>Statement of Net Assets*</u>				
	<u>June 30, 2007</u>	<u>June 30, 2006**</u>	<u>Change (dollars)</u>	<u>Change (percentage)</u>
Assets:				
Current assets	\$ 263,210	\$ 148,111	\$115,099	78%
Capital assets, net	476,938	409,146	67,792	17%
Other assets	<u>4,835</u>	<u>3,497</u>	<u>1,338</u>	<u>38%</u>
Total assets	<u>744,983</u>	<u>560,754</u>	<u>184,229</u>	<u>33%</u>
Liabilities:				
Current liabilities	124,673	94,641	30,032	32%
Noncurrent liabilities	<u>253,937</u>	<u>163,106</u>	<u>90,831</u>	<u>56%</u>
Total liabilities	<u>378,610</u>	<u>257,747</u>	<u>120,863</u>	<u>47%</u>
Net assets:				
Invested in capital assets, net of debt	298,468	280,199	18,269	7%
Restricted: nonexpendable	2,500	-	2,500	100%
Restricted: expendable	23,759	12,215	11,544	95%
Unrestricted	<u>41,646</u>	<u>10,593</u>	<u>31,053</u>	<u>293%</u>
Total net assets	<u>\$ 366,373</u>	<u>\$ 303,007</u>	<u>\$ 63,366</u>	<u>21%</u>

* in thousands

** as restated

The University’s financial position remained strong at the end of fiscal year 2007. Total assets were \$745 million and net assets (total assets less liabilities of \$379 million) amounted to \$366 million. Current assets of \$263 million exceed current liabilities of \$125 million by \$138 million. Capital assets, net of accumulated depreciation of \$251 million, totaled \$477 million. The University’s net asset position increased in 2007 compared to 2006 by \$63 million. Most of this increase in total net assets is reflected in the increases in unrestricted net assets (\$31 million) and net assets invested in capital assets net of related debt (\$18 million).

Capital Asset and Debt Administration

Note 4 of the Notes to Financial Statements describes the University’s rapidly expanding investment in capital assets, with total depreciable capital asset additions of \$51.3 million (excluding land and construction in progress), additions to land of \$2.2 million, and additions to construction in progress of \$77 million. Depreciation expense increased by \$2.6 million over the prior year to \$25 million.

Capital asset additions in fiscal year 2007 included increases of \$25.8 million in buildings, \$9.7 million in equipment, \$8.6 million in infrastructure, \$1.5 million in improvements, and \$5.8 million in library materials. The building increase was caused by the completion and placing into service of the Research I Building (\$21 million), the Dominion Hall Renovation (\$2.5 million) and new HVAC in Finley and Krug buildings (\$1.5 million). Additions to infrastructure resulted primarily from improvements to the Fairfax campus utilities infrastructure (\$7 million) and the Arlington campus infrastructure (\$1.6 million). The increase in improvements was attributable to the construction of the West parking lot on the Fairfax campus (\$1 million) and improvements made to the Fairfax tennis courts (\$.5 million).

Additions to construction in progress during fiscal year 2007 included additional construction costs for ongoing projects such as Student Housing VII (\$34 million), Student Union Building III (\$6 million), the Krasnow Institute Addition (\$5 million), the Fairfax Aquatic Center Addition (\$3.5 million), the renovations to Thompson and West buildings (\$2.5 million), and the Academic VI/Research II building (\$2.5 million).

Notes 6, 7, and 8 describe changes in the University's long-term debt. Net increases to capital long-term debt were \$90.4 million during fiscal year 2007. Net of repayments, this increase is primarily the result of \$41.5 million in Commonwealth of Virginia 9(c) Revenue Bonds issued to finance Housing VII (\$39 million) and the Dominion Hall Renovation (\$2.5 million), and approximately \$56 million in Virginia College Building Authority Notes, issued to finance the following projects: Student Union III (\$5.2 million), PE Building Addition/Renovation (\$8.8 million), Krasnow Institute Addition II (\$2.0 million), Patriot Center Addition (\$8.2 million), Prince William Bio-containment Building (\$13.3 million), Prince William Performing Arts Center (\$10.8 million), and Fairfax Surge Space (\$7.9 million).

Contractual commitments for capital outlay projects under construction at year end decreased from \$76.2 million in 2006 to \$27.0 million in 2007. The large decrease is caused primarily by the conversion of 2006 commitments into construction invoice payments during 2007 for Housing VII and the Fairfax Aquatic Center addition on the Fairfax campus, and is reflected in the 2007 additions to construction in progress. Contractual commitments at the end of fiscal year 2007 do not include those for the following projects not yet under construction at June 30: Arlington II, a multistory, multipurpose building on the Arlington Campus, the Prince William Bio-containment Building, the Prince William Performing Arts Center, Parking Deck III, and the Hotel and Conference Center.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the University's operating revenues, expenses incurred, and all other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to the students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating revenues because they are provided by the legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets*

	<u>Year Ended June 30,</u> <u>2007</u>	<u>2006**</u>	<u>Change</u> <u>(dollars)</u>	<u>Change</u> <u>(percentage)</u>
Operating revenues:				
Student tuition and fees, net of allowances	\$ 154,081	\$ 138,804	\$ 15,277	11%
Grants and contracts	93,064	88,748	4,316	5%
Auxiliary enterprises and other	<u>88,192</u>	<u>82,564</u>	<u>5,628</u>	7%
 Total operating revenues	<u>335,337</u>	<u>310,116</u>	<u>25,221</u>	8%
 Operating expenses:				
Education and general	374,482	329,454	45,028	14%
Depreciation	24,986	22,418	2,568	11%
Scholarships and fellowships	13,620	13,367	253	2%
Auxiliary enterprises	<u>68,607</u>	<u>63,919</u>	<u>4,688</u>	7%
 Total operating expenses	<u>481,695</u>	<u>429,158</u>	<u>52,537</u>	12%
 Operating loss	(146,358)	(119,042)	(27,316)	(23%)
Non-operating revenues and expenses (net)	<u>188,951</u>	<u>122,979</u>	<u>65,972</u>	54%
Income before other revenues, expenses, gains or losses	42,593	3,937	38,656	982%
Capital appropriations, gifts, contributions and other expenses (net)	<u>20,773</u>	<u>15,855</u>	<u>4,918</u>	31%
 Increase in net assets	63,366	19,792	43,574	220%
 Net assets at beginning of year **	<u>303,007</u>	<u>283,215</u>	<u>19,792</u>	7%
 Net assets at end of year	<u>\$ 366,373</u>	<u>\$ 303,007</u>	<u>\$ 63,366</u>	21%

* in thousands

** as restated

The key metric in the Statement of Revenues, Expenses, and Changes in Net Assets is “Income before other revenues, expenses, gains and losses” since this includes both operating results and the University’s educational and general operating appropriation from the Commonwealth. This amount increased by \$38.7 million over the previous year (\$42.6 million for fiscal year 2007 compared to \$3.9 million for fiscal year 2006). This very large increase in income before other revenues, expenses, gains, and losses is primarily a result of a \$48.6 million increase in restricted state general fund appropriations and an \$11.5 million increase in the state educational and general appropriation.

Operating revenue, consisting mostly of tuition and fees, grants and contracts, and auxiliary enterprises, increased by \$25.2 million or eight percent from the prior year. Student tuition and fees, net of scholarship allowances, increased by \$15.3 million. Most of this growth is attributable to increases in out-of-state and premium tuition revenue generated for law and graduate programs.

Total operating expenses increased by \$52.5 million or 12 percent, including an increase of \$34 million in compensation expenses, consisting of the natural expense classification salaries, wages, and fringe benefits. Non-operating revenues net of non-operating expenses increased by \$65.9 million due primarily to the \$48.6 million increase in restricted State General Fund appropriations and the \$11.5 million increase in State Educational and General appropriations.

Statement of Cash Flows

The final statement is the Statement of Cash Flows. This statement presents information about the cash activity of the institution during the year. The statement is divided into five parts. The first deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, non-investing, and noncapital financing purposes such as the state appropriations for educational and general programs and financial aid. The third section reflects the cash flows from capital financing activities and shows the purchases, proceeds, and interest received from these activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used by operating activities to the operational loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flows*

	<u>June 30, 2007</u>	<u>June 30, 2006**</u>	<u>Change (dollars)</u>	<u>Change (percentage)</u>
Cash provided from operations	\$ 337,685	\$ 310,478	\$ 27,207	9%
Cash expended for operations	<u>442,809</u>	<u>411,381</u>	<u>31,428</u>	8%
Net cash operations	<u>(105,124)</u>	<u>(100,903)</u>	(4,221)	(4%)
Net cash provided by noncapital financing activities	191,560	126,580	64,980	51%
Net cash provided by (used for) capital financing activities	17,306	(30,497)	47,803	157%
Net cash provided by investing activities	<u>6,340</u>	<u>1,871</u>	<u>4,469</u>	239%
Net increase (decrease) in cash	110,082	(2,949)	113,031	383%
Cash and cash equivalents, beginning of year – restated	<u>103,867</u>	<u>106,816</u>	<u>(2,949)</u>	(3%)
Cash and cash equivalents, end of year	<u>\$ 213,949</u>	<u>\$ 103,867</u>	<u>\$110,082</u>	106%

* in thousands

** as restated

The above summarized Statement of Cash Flows shows that the University generates 76 percent (\$338 million of \$443 million) of its operating cash requirements internally with all of the remainder (\$105 million) being provided in the form of appropriations from the Commonwealth of Virginia. Non-operating cash was provided by capital appropriations and the sale of revenue bonds, which were used to acquire capital assets.

Cash from operating activities increased by \$27.2 million in 2007. The major sources of the increase in operating cash are student tuition and fees (\$14.5 million increase) and grants and contracts (\$10.1 million increase). Uses of operating cash also increased from 2006 to 2007 by \$31.4 million. Major uses of operating cash are payments for salaries, wages, and fringe benefits (\$6.5 million increase) and payments for supplies and services (\$23.8 million increase).

Cash provided by non-capital financing activities increased \$64.9 million in 2007, primarily due to the increase of \$60.1 million in state appropriations. The University generated \$47.8 million more cash from capital financing activities in 2007 than in 2006. Primary sources of cash from capital financing activities include proceeds from issuance of capital related debt (\$60.0 million increase from 2006), offset by an increase in cash outflows for purchases of capital assets (\$29.2 million increase from 2006). The primary source of cash from investing activities is interest on non-general fund and local cash balances, endowment investment earnings, and changes in securities lending investment and liability balances managed by the Commonwealth.

Economic Outlook

The University's financial position is strong. Increased tuition revenues reflect continued enrollment growth and tuition rate increases. The University is undertaking a major building program resulting in a new research building which opened in July 2006 on the Fairfax campus, and a new Northeast Sector Complex on the Fairfax campus, which will include five multistory buildings supporting a total of 1,030 beds, dining facilities, a fitness center, a new student union, and retail operations. Other construction in progress includes a multistory, multipurpose building on Arlington Campus, and a new academic building and second academic/research building at the Fairfax campus.

The University's research program focuses on several thematic areas: cancer biology and biomedicine, neuroscience, bioengineering, and the global biosphere. The University also offers a graduate certificate in nanotechnology and nanoscience. In the summer of 2006, George Mason used new capital appropriations to purchase a \$2.2 million parcel of land at the Prince William Campus, which will be the site of a Regional Biocontainment Laboratory. Construction of the biocontainment facility is funded in part by a \$25 million award from the National Institute of Allergy and Infectious Diseases (NAIAD), part of the National Institutes of Health, resulting in the largest research award in the University's history. The Krasnow Institute for Advanced Study purchased a state-of-the-art brain MRI scanning machine last October, becoming one of two, alongside Princeton, non-medical schools with a cognitive neuroscience research institute to own functional imaging technology. The University is well positioned to continue its overall growth pattern.

FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

ASSETS		
	George Mason University	Component Unit
Current assets:		
Cash and cash equivalents (Note 2)	\$ 216,675,025	\$ 3,275,984
Short-term investments (Note 2)	10,736,205	50,751,448
Accounts receivable, net of allowance of \$476,665 (Note 3)	6,565,127	577,259
Notes receivable, net of allowance of \$12,841 (Note 3)	1,006,641	-
Grants and contracts receivable (restricted)	18,728,091	-
Pledges receivable, net (Note 3)	-	2,523,749
Prepaid expenses	2,890,798	90,586
Inventories	146,003	-
Due from the Commonwealth of Virginia	6,401,199	-
Leasing commissions	-	360,058
Unamortized bond issuance costs	60,991	61,976
Total current assets	263,210,080	57,641,060
Noncurrent assets:		
Restricted deposits held in custody by others	1,185,791	-
Notes receivable, net of allowance of \$45,674 (Note 3)	2,715,553	-
Depreciable capital assets, net of accumulated depreciation (Note 4)	366,844,333	85,790,233
Nondepreciable capital assets (Note 4)	110,093,743	19,994,391
Long-term investments (Note 2)	-	45,104,748
Pledges receivable (Note 3)	-	9,108,049
Other assets	-	15,717,780
Unamortized bond issuance costs	933,341	776,353
Total noncurrent assets	481,772,761	176,491,554
Total assets	744,982,841	234,132,614
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	54,146,185	2,616,855
Advance from Treasurer of Virginia	10,585,000	-
Deferred revenue	29,950,999	57,176
Obligations under securities lending	13,461,428	-
Deposits held in custody for others	386,826	2,953,071
Long-term liabilities-current portion (Notes 6 - 10)	16,142,108	991,858
Total current liabilities	124,672,546	6,618,960
Noncurrent liabilities (Notes 6 - 10)	253,937,175	104,042,413
Total liabilities	378,609,721	110,661,373
NET ASSETS		
Invested in capital assets, net of related debt	298,468,406	4,752,953
Restricted: nonexpendable	2,500,000	55,192,516
Restricted: expendable	23,759,037	53,955,990
Unrestricted	41,645,677	9,569,782
Total net assets	\$ 366,373,120	\$ 123,471,241

The accompanying Notes to this Financial Statement are an integral part of this statement.

GEORGE MASON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2007

	George Mason University	Component Unit
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$19,434,960)	\$ 154,080,984	\$ -
Federal grants and contracts	62,094,608	-
State, local, and nongovernmental grants and contracts	30,968,805	-
Auxiliary enterprises (net of scholarship allowances of \$5,680,406)	83,352,701	4,417,093
Other operating revenue	4,839,503	19,731,474
Total operating revenue	335,336,601	24,148,567
Operating expenses: (Note 11)		
Instruction	193,600,429	1,198,841
Research	45,976,430	6,707,888
Public service	11,840,159	-
Academic support	38,513,144	4,318,248
Student services	18,709,934	-
Institutional support	38,344,235	3,547,146
Operation and maintenance of plant	27,497,963	1,236,833
Depreciation and amortization	24,986,173	3,308,597
Scholarships and fellowships	13,620,385	2,116,561
Auxiliary enterprises	68,606,603	1,663,422
Total operating expenses	481,695,455	24,097,536
Operating income (loss)	(146,358,854)	51,031
Nonoperating revenues (expenses):		
State educational and general appropriation (Note 12)	126,921,637	-
State general fund appropriations - restricted	61,035,250	-
Investment earnings	6,340,526	7,564,249
Interest expense (Note 13)	(5,345,894)	(5,759,519)
Other	-	10,423,595
Net nonoperating revenues	188,951,519	12,228,325
Income before other revenues, expenses, gains, and losses	42,592,665	12,279,356
Other revenues, expenses, gains, and losses:		
Capital gifts and contributions	6,660,171	-
Capital appropriations	12,588,224	-
Additions to permanent endowments	2,000,000	2,042,333
Other	(474,950)	(93,866)
Net other revenues, expenses, gains, and losses	20,773,445	1,948,467
Increase in net assets	63,366,110	14,227,823
Net assets beginning of year	308,495,954	107,611,565
Prior period adjustment (Note 14)	(5,488,944)	1,631,853
Net assets - beginning of year restated	303,007,010	109,243,418
Net assets - end of year	\$ 366,373,120	\$ 123,471,241

The accompanying Notes to this Financial Statement are an integral part of this statement.

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007

Cash flows from operating activities:	
Student tuition and fees	\$ 154,813,913
Grants and contracts	95,287,838
Auxiliary enterprises	84,177,413
Perkins loan receipts	987,994
Other receipts	2,417,792
Payments to suppliers	(122,656,740)
Payments to employees	(305,146,367)
Payments for scholarships and fellowships	(13,620,385)
Perkins loan disbursements	(1,385,192)
Net cash used by operating activities	(105,123,734)
Cash flows from noncapital financing activities:	
State appropriations	187,956,887
Advance from Treasurer	2,500,000
Additions to endowments	2,000,000
Agency transactions	(897,257)
Net cash provided by noncapital financing activities	191,559,630
Cash flows from capital and related financing activities:	
Proceeds from capital appropriations available	18,455,600
Capital gifts and contributions	2,788,739
Proceeds from issuance of capital related debt	97,605,557
Bond premium paid on capital related debt	2,089,121
Bond issuance costs on capital related debt	(322,382)
Principal paid on capital related debt	(9,655,970)
Interest paid on capital related debt	(4,874,903)
Purchases of capital assets	(88,779,311)
Net cash provided by capital and related financing activities	17,306,451
Cash flows from investing activities:	
Interest on investments	6,340,526
Net increase in cash	110,082,873
Cash and cash equivalents - beginning of the year	123,099,011
Prior period adjustment - change in reporting guidelines	(5,953,336)
Appropriations available restatement	(6,668,033)
Less: Securities Lending - Treasurer of Virginia	(6,610,713)
Cash and cash equivalents - beginning of the year, restated	103,866,929
Cash and cash equivalents - end of the year	\$ 213,949,802

GEORGE MASON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2007

RECONCILIATION OF STATEMENT OF CASH FLOWS, TO STATEMENT OF NET ASSETS:

Statement of Net Assets	
Cash and cash equivalents	\$ 216,675,025
Less: Securities lending - Treasurer of Virginia	<u>(2,725,223)</u>
Net cash and cash equivalents	<u>\$ 213,949,802</u>

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (146,358,854)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	24,986,173
Changes in assets and liabilities:	
Accounts receivable (net)	(2,325,959)
Restricted assets receivable (net)	470,662
Perkins loan receivable	(533,507)
Perkins loan liability	136,309
Inventory	(47,448)
Prepaid expenses	(543,597)
Due from Commonwealth	(1,521,386)
Accounts payable and accrued liabilities	14,100,243
Deferred revenue	3,215,655
Compensated absences	<u>3,297,975</u>
Net cash used by operating activities	<u>\$ (105,123,734)</u>

The accompanying Notes to this Financial Statement are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

GEORGE MASON UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

George Mason University is a comprehensive, doctoral institution that is part of the Commonwealth of Virginia's statewide system of higher education. The Board of Visitors, appointed by the Governor, is responsible for overseeing the governance of the University. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

According to Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the George Mason University Foundation, Inc. (Foundation) meets criteria qualifying it as a component unit of the University. During the year ended June 30, 2007, the Foundation distributed \$16,167,498 to or on behalf of the University for both restricted and unrestricted purposes. Separate financial information regarding the Foundation may be obtained by writing to the Foundation Business Office at 4400 University Drive, MSN 1A3, Fairfax, VA 22030.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public College and Universities*. The University follows Statement Number 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

The Foundation is a private, nonprofit organization that reports under (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated. The University's policy is to spend restricted resources before unrestricted resources when both are available for expenses that are properly chargeable to restricted resources.

D. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets include land, buildings, library materials, equipment, improvements, and infrastructure assets such as sidewalks, and electrical and computer network cabling systems. Capital assets generally are defined by the University as assets with an initial cost of \$2,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Other capital assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized, as projects are constructed (construction in progress). Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset with no residual value. Depreciation is not allocated to the functional expense categories. Normal useful lives by asset categories are listed below:

Buildings	25-50 years*
Improvements and infrastructure	10-30 years
Equipment	5-20 years
Library materials	10 years

* Research buildings are depreciated using the component method. The estimated useful lives of research building components range from 10-50 years.

Property and equipment held by the Foundation having a cost in excess of \$2,000 are capitalized at cost. Donated assets are capitalized at the estimated fair market value at the

date received. Buildings, furniture, and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows: buildings, 25 to 45 years; building improvements, 3 to 27 years; and furniture and equipment, 3 to 5 years.

F. Inventory

Inventory represents computers and related items for resale to students, faculty and staff, and is valued on a first-in, first-out basis.

G. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments or maintain sinking or reserve funds are classified as noncurrent assets in the Statement of Net Assets.

H. Deferred Revenue

Deferred revenue represents monies collected but not earned as of June 30, 2007. This is primarily composed of student tuition collected for courses that will be offered after June 30, 2007.

I. Accrued Compensated Absences

The amount of leave earned but not taken by salaried employees and administrative faculty members is recorded as a liability. The amount reflects, as of June 30, 2007, all unused vacation leave, and sick leave payable upon termination under University policy. The applicable share of employer related taxes also is included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loan programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above.

L. Revenue Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, local and nongovernmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income. Non-operating expenses include interest on debt related to the purchase of capital assets.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs are recorded as grants and contracts revenues in the University's financial statements.

N. Prepaid Expenses

The University has capitalized facility rentals and insurance premiums for fiscal year 2008 that were paid in advance as of June 30, 2007.

O. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discounts and premiums, which are expensed over the life of the bond. Similarly, bond issuance costs are reported as a noncurrent asset that is amortized over the life of the bond on a straight-line basis.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the period beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2007. The following risk disclosures are required by GASB:

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This statement requires the disclosure of the credit quality ratings of all investments subject to credit risk. Information with respect to the University deposit exposure to credit risk is discussed below.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement.

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. This statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have an interest rate risk policy, and no investments or deposits that are sensitive to changes in interest rates as of the close of business on June 30, 2007.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2007.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds, maintains all state funds of the University. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Finance and Resource Development Committee of the Board. The University has the following types of cash and cash equivalents and investments:

	<u>Market Value</u>
Cash and cash equivalents:	
Local funds	\$ 11,592,374
Treasurer of Virginia	150,039,566
Treasurer of Virginia (Securities Lending)	2,725,223
Treasurer of Virginia (State Nonarbitrage Program)	<u>52,317,862</u>
Total	<u>\$ 216,675,025</u>
Investments:	
Treasurer of Virginia (Securities Lending)	<u>\$ 10,736,205</u>
Total	<u>\$ 10,736,205</u>

The fair market value of investments held by the Foundation at June 30, 2007 is summarized as follows:

Unrestricted investments:	
Cash and money market	\$ 16,974,528
Mutual funds:	
Equity funds	19,117,938
Bond funds	7,463,320
United States government and agency obligations	1,403,576
Corporate stocks	20,256,466
Corporate bonds	10,848,431
Alternative investments	19,394,069
Real estate and other	<u>397,867</u>
Total unrestricted	<u>\$ 95,856,195</u>

The Foundation's investment earnings are summarized as follows for the year ended June 30, 2007:

Interest and dividends	\$ 2,503,555
Realized gains	1,996,226
External management fees	(200,869)
Unrealized gains	<u>7,037,376</u>
Total	<u>11,336,288</u>
Unrealized/realized gains included with change in split interest agreements:	
Interest and dividends	165,528
Realized gains	574,402
External management fees	(4,195)
Unrealized gains	<u>(60,028)</u>
Total	<u>675,707</u>
Net investment return	<u>\$ 12,011,995</u>

C. Securities Lending Transactions

Investments and cash equivalents held by the Treasurer of Virginia represent the University's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consisted of the following at June 30, 2007:

Accounts receivable:

Student tuition and fees	\$ 3,820,165
Other accounts receivable	<u>3,221,627</u>

Total accounts receivable	<u>7,041,792</u>
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Less allowance for doubtful accounts	<u>(476,665)</u>
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Net accounts receivable	<u>\$ 6,565,127</u>
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Notes receivable:

Current:

Perkins loans receivable - current portion	\$ 838,741
State and nursing loans	144,443
Loans to students, faculty and staff	36,298
Less allowance for doubtful accounts	<u>(12,841)</u>

Total current notes receivable	<u>\$ 1,006,641</u>
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Noncurrent:

Perkins loans receivable - long term portion	\$ 2,736,188
State and nursing loans	25,039
Less allowance for doubtful accounts	<u>(45,674)</u>

Net non-current notes receivable	<u>\$ 2,715,553</u>
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The Foundation's pledges receivable as of June 30, 2007 are as follows:

Due in less than one year	\$ 2,523,749
Due in one to five years	6,088,448
Due in more than five years	5,808,954
Less discount	<u>(2,789,353)</u>

Total	<u>\$11,631,798</u>
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Discount rates range from 2.3 percent to 5.12 percent.

As of June 30, 2007, the Foundation received \$3,286,113 of conditional promises to give, primarily for the future establishment of endowed chairs. These conditional promises to give are not recognized as assets.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2007 is as follows:

	<u>Beginning Balance (restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$ 13,485,149	\$ 2,188,912	\$ -	\$ 15,674,061
Construction-in-progress	54,523,704	77,071,307	37,470,786	94,124,225
Works of art and historical treasures	<u>118,800</u>	<u>176,657</u>	<u>-</u>	<u>295,457</u>
Total non-depreciable capital assets	<u>68,127,653</u>	<u>79,436,876</u>	<u>37,470,786</u>	<u>110,093,743</u>
Depreciable capital assets:				
Buildings	380,581,193	25,786,760	-	406,367,953
Improvements	21,729,919	1,522,387	-	23,252,306
Infrastructure assets	16,266,153	8,536,545	-	24,802,698
Equipment	88,294,446	9,663,821	3,975,266	93,983,001
Library materials	<u>63,719,379</u>	<u>5,803,763</u>	<u>429,658</u>	<u>69,093,484</u>
Total depreciable capital assets	<u>570,591,090</u>	<u>51,313,276</u>	<u>4,404,924</u>	<u>617,499,442</u>
Less accumulated depreciation:				
Buildings	117,960,773	10,475,050	-	128,435,823
Improvements	12,752,941	1,322,795	-	14,075,736
Infrastructure assets	10,678,105	755,271	-	11,433,376
Equipment	45,934,849	8,297,900	3,473,880	50,758,869
Library materials	<u>42,245,806</u>	<u>4,135,157</u>	<u>429,658</u>	<u>45,951,305</u>
Total accumulated depreciation	<u>229,572,474</u>	<u>24,986,173</u>	<u>3,903,538</u>	<u>250,655,109</u>
Depreciable capital assets, net	<u>341,018,616</u>	<u>26,327,103</u>	<u>501,386</u>	<u>366,844,333</u>
Total capital assets, net	<u>\$409,146,269</u>	<u>\$105,763,979</u>	<u>\$ 37,972,172</u>	<u>\$ 476,938,076</u>

The following comprises property and equipment for the Foundation at June 30, 2007:

Land	\$ 19,421,824
Art and antiques	572,567
Buildings	86,696,756
Building improvements	9,299,008
Furniture and equipment	<u>325,650</u>
Total	<u>116,315,805</u>
Accumulated depreciation and amortization	<u>(11,103,748)</u>
Net property and equipment	<u>\$ 105,212,057</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages and fringe benefits payable	\$ 32,168,537
Vendors and suppliers accounts payable	<u>21,977,648</u>
Total accounts payable and accrued expenses	<u>\$ 54,146,185</u>

5. NONCURRENT LIABILITIES

Noncurrent liabilities consist of long-term debt, installment purchases, accruals for compensated absences and retirement plans, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ended June 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
Long-term debt:						
Revenue bonds	\$ 84,135,984	\$41,500,000	\$ 5,494,854	\$120,141,130	\$ 7,250,030	\$112,891,100
Notes payable	66,010,000	56,085,000	3,015,000	119,080,000	3,625,000	115,455,000
Installment purchases	12,885,498	20,557	493,855	12,412,200	1,031,340	11,380,860
Bond discount	(442,563)	(56,571)	(40,263)	(458,871)	(41,350)	(417,521)
Bond premium	<u>3,930,270</u>	<u>2,145,690</u>	<u>302,772</u>	<u>5,773,188</u>	<u>345,299</u>	<u>5,427,889</u>
Total long-term debt	<u>166,519,189</u>	<u>99,694,676</u>	<u>9,266,218</u>	<u>256,947,647</u>	<u>12,210,319</u>	<u>244,737,328</u>
Accrued compensated absences	7,176,790	8,804,177	5,506,201	10,474,766	3,931,789	6,542,977
Loan Funds	<u>2,520,561</u>	<u>136,309</u>	<u>-</u>	<u>2,656,870</u>	<u>-</u>	<u>2,656,870</u>
Total long-term liabilities	<u>\$176,216,540</u>	<u>\$108,635,162</u>	<u>\$14,772,419</u>	<u>\$270,079,283</u>	<u>\$16,142,108</u>	<u>\$253,937,175</u>

7. BONDS PAYABLE

A. Revenue Bonds

University bonds are issued pursuant to Section 9, Article X of the Constitution of Virginia. Section 9(c) bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, are expected to generate revenue to repay the debt. Conversely, section 9(d) bonds are exclusively the limited obligations of the University to be repaid from pledged general revenues and other funds generated by the University. Net proceeds from the sale of revenue bonds are required to be invested in the Virginia State Non-Arbitrage program. GASB Statement 31 deems this participation to be involuntary.

In 1995, the University issued \$4,355,000 of Section 9(d) bonds with interest rates ranging from 5.20 percent to 6.37 percent to finance the construction of the Krasnow Institute for Advanced Study. The Krasnow Foundation has deposited funds with the George Mason University Foundation, which are used to reimburse the University for the debt service payments the latter is obligated to make.

In August 2004, the University issued Commonwealth of Virginia 9(c) General Obligation Bonds to finance the renovation of Commonwealth and Dominion student housing on the Fairfax campus. The remaining principal amount of \$1,745,000 with an interest rate

ranging from 3.75 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2014.

In November 2004, the Commonwealth's Treasury Board completed the sale of the General Obligation Refunding Bonds, Series 2004B. The Bonds provided debt service savings in the amount of \$670,940 by advance refunding the Series 2001, Residence Hall V 9(c) revenue bond. The remaining principal amount of \$9,738,856 with an interest rate ranging from 2.0 percent to 5.0 percent is to be paid semi-annually. The final payment will be due in 2020.

In November 2005, the University issued Commonwealth of Virginia 9(c) General Obligation Bonds to finance the Housing VII project on the Fairfax campus. The principal amount of \$25,800,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2027.

In November 2006, the Commonwealth's Treasury Board completed the sale of the General Obligation Bonds, Series 2006B, proceeds of which are being used to finance the construction of Student Housing VII and the renovations of the Dominion Housing Facility. The principal amount for Student Housing VII is \$39,080,000 with an interest rate ranging from 4.0 percent to 5.0 percent. Payments are to be made annually with the final payment due in 2031. The principal amount for the Dominion Housing Facility is \$2,420,000 with an interest rate of 5.0 percent. Payments are to be made annually with the final payment due in 2016.

The following schedule describes the total principal and interest on the revenue bonds outstanding:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 7,250,030	\$ 3,577,618	\$ 10,827,648
2009	8,261,491	5,116,291	13,377,782
2010	6,681,852	4,840,106	11,521,958
2011	6,073,505	4,532,377	10,605,882
2012	5,865,275	4,250,515	10,115,790
2013-2017	27,228,856	16,985,478	44,214,334
2018-2022	23,185,121	11,267,002	34,452,123
2023-2027	20,575,000	5,837,350	26,412,350
2028-2031	<u>15,020,000</u>	<u>1,542,125</u>	<u>16,562,125</u>
Total	<u>\$120,141,130</u>	<u>\$57,948,862</u>	<u>\$178,089,992</u>

The following schedule describes each of the revenue bonds outstanding:

<u>Bond Title</u>	<u>Year Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term (Years)</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2007</u>
9(c) Revenue bonds:						
Humanities III	1989	\$ 9,400,000	6.5 to 6.7%	20	2009	\$ 1,735,681
Residence halls III	1989	10,697,600	6.4 to 6.7%	20	2009	1,975,279
Residence halls IV	1990	11,145,000	3.6 to 8.4%	20	2010	2,521,708
Student Union II Addition	1992	2,535,000	3.5 to 5.5%	20	2012	919,974
University Center	1993	21,460,000	3.75 to 5.25%	20	2015	11,229,632
Arlington parking garage	1998	1,915,000	3.5 to 4.2%	10	2008	235,000
Residence Hall V	2002	21,780,000	4.0 to 5.0%	20	2022	9,180,000
Housing Renovations	2002	3,435,000	4.0 to 5.0%	20	2022	1,675,000
Residence Hall V	2003	8,635,000	2.25 to 5.0 %	20	2024	7,025,000
Commonwealth and Dominion	2005	2,340,000	3.75 to 5.0 %	10	2014	1,745,000
9(c) 2004 B refunding	2004	9,939,875	2.00 to 5.00%	15	2020	9,738,856
Student Housing VII	2005	25,800,000	3.75 to 5.0 %	25	2027	25,800,000
Student Housing VII RB#2	2006	39,080,000	4 to 5%	25	2031	39,080,000
Renovate Housing Dominion	2006	<u>2,420,000</u>	5%	10	2016	<u>2,420,000</u>
Total 9(c) bonds		<u>170,582,475</u>				<u>115,281,130</u>
9(d) revenue bonds:						
Krasnow Institute for Advanced Study	1995	4,355,000	5.2 to 6.375%	20	2016	2,677,686
Warehouse	1995	<u>2,905,000</u>	5.2 to 6.375%	20	2016	<u>2,182,314</u>
Total 9(d) bonds		<u>7,260,000</u>				<u>4,860,000</u>
Total bonds payable		<u>\$177,842,475</u>				<u>\$120,141,130</u>

B. Commonwealth Bond Obligations

Commonwealth of Virginia Educational Institutions bonds, 9(b) general obligation bonds, were approved by voter referendum in the November 1992 general election. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

In December 1996, Virginia College Building Authority issued \$53,160,000 in Educational Facilities Revenue bonds for the 21st Century College Program. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

Chapter 924 of the 1997 Acts of the General Assembly authorized the Virginia Public Building Authority to provide \$500,000 for capital costs related to the University's construction of the Prince William Auditorium from the excess bond proceeds of the Authority. The bond liability is assumed by the Commonwealth of Virginia and is not reflected as a liability of the University.

C. Prior Year Bond Defeasance

The Commonwealth of Virginia, on behalf of the University, issued bonds in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the University's financial statements. On June 30, 2007, \$920,000 of bonds were considered defeased.

8. NOTES PAYABLE

A. VCBA Notes Payable

The University has entered into seven promissory notes with the VCBA. The first note payable issued in September 1997 was to finance the construction of the aquatic center located on the Fairfax campus and the Freedom Aquatic Center with adjacent parking lot located on the Prince William campus. The remaining principal amount of \$5,065,000 with an interest rate ranging from 3.75 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1997A.

The second note payable issued in October 1999 was to finance the construction of the parking garage expansion on the Fairfax campus. The remaining principal amount of \$540,000 with an interest rate ranging from 4.50 percent to 6.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A.

In October 2001, the University entered into a third promissory note with the Virginia College Building Authority (VCBA), for the construction of the Student Union Renovation Project. The remaining principal amount of \$1,465,000 with repayment interest rates ranging from 3.0 percent to 5.0 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2001A.

In November 2003, the University entered into a fourth promissory note to finance the construction of Parking Deck II on the Fairfax campus. The remaining principal amount of \$12,575,000 with an interest rate ranging from 2.50 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2003A. The University is required to pay the annual debt service on the 9(d) general revenue bonds issued by VCBA for the purchase of the promissory notes.

In October 2004, the University entered into a fifth promissory note to finance the construction of Fairfax Research I Building and renovation of the Fairfax Aquatic Center. The remaining principal amount of \$9,680,000 (Research I) and \$6,450,000 (Aquatic Center) with an interest rate ranging from 3.00 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2026 for Research I and 2021 for the Aquatic Center as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004A.

In October 2004, Virginia College Building Authority completed the issuance of 2004B bonds, proceeds of which are being used to refinance certain prior Institutional Notes: Series 1999, Fairfax Parking Garage Expansion; Series 1997A, Prince William Freedom Aquatic Center; Series 1997A, Fairfax Aquatic Center. The remaining principal amount of \$16,060,000 with an interest rate ranging from 3.00 percent to 5.00 percent is to be paid semi-annually as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2004B.

In October 2005, the University entered into a sixth promissory note to finance the construction of the Child Development Center, Student Union III and addition to the Krasnow Institute. The principal amount of \$1,775,000 (Child Development Center), \$4,890,000 (Student Union III) and \$4,495,000 (Krasnow Institute Addition) with an interest rate ranging from 3.50 percent to 5.00 percent is to be paid semi-annually. The final payment will be due in 2027 for Student Union III and Krasnow Institute Addition and 2017 for the Child Development Center as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2005A.

In November 2006, the University entered into a seventh promissory note to finance the construction of Student Union III (\$5,190,000), Fairfax Surge Space Building (\$6,340,000), Fairfax Surge Space Fit Out (\$1,515,000), Prince William Biocontainment Lab (\$13,260,000) and the Prince William Performing Arts Center (\$10,790,000). Proceeds will also finance additions and/or renovations to the Patriot Center (\$8,200,000), Krasnow Institute (\$1,955,000), Physical Education Building (\$6,035,000), and Physical Education Building Phase II (\$2,800,000). Payments will be made semi-annually with an interest rate ranging from 3.0 to 5.0 percent. The final payment for Krasnow Institute will be due in 2027. Final payments for Student Union III, Fairfax Surge Space Building, Fairfax Surge Space Fit Out, and the Patriot Center Addition/Renovation will be due in 2028. In 2029, the final payments will be due for Prince William Biocontainment Lab, Prince William Performing Arts Center, Physical Education Building Addition/Renovation, and the Physical Education Building Addition Phase II as provided in the VCBA's Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 2006A.

The following schedule describes the total principal and interest on the notes outstanding:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,625,000	\$ 2,982,683	\$ 6,607,683
2009	4,200,000	3,765,069	7,965,069
2010	5,345,000	5,004,300	10,349,300
2011	5,575,000	4,765,450	10,340,450
2012	5,840,000	4,487,488	10,327,488
2013-2017	32,140,000	17,852,188	49,992,188
2018-2022	29,085,000	9,953,281	39,038,281
2023-2027	27,035,000	3,450,938	30,485,938
2028-2031	<u>6,235,000</u>	<u>164,775</u>	<u>6,399,775</u>
Total	<u>\$119,080,000</u>	<u>\$ 52,426,172</u>	<u>\$171,506,172</u>

The following schedule describes each of the notes outstanding:

<u>Bond Title</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Bond Term (Years)</u>	<u>Final Payment Due</u>	<u>Balance Outstanding at June 30, 2007</u>
Fairfax Swimming Pool	1997	\$ 10,340,000	3.75 to 5.0%	9	2008	\$ 1,770,000
Prince William Aquatics	1997	17,325,000	3.75 to 5.0%	9	2008	3,065,000
Prince William II Parking	1997	1,915,000	3.75 to 5.0%	20	2017	230,000
Fairfax Park Garage Expansion	1999	4,100,000	4.5 to 6.0%	10	2009	540,000
Student Union I Renovation	2002	2,460,000	3.0 to 5.0%	10	2012	1,465,000
Parking Deck II	2003	13,455,000	2.5 to 5.0%	22	2025	12,575,000
Fairfax Research I	2004	10,005,000	3.0 to 5.0%	22	2026	9,680,000
Aquatic Fitness Center	2004	6,785,000	3.0 to 5.0%	17	2021	6,450,000
VCBA 2004 B Refunding	2004	16,190,000	3.0 to 5.0%	15	2019	16,060,000
Krasnow Institute	2005	4,495,000	3.50 to 5.0%	22	2027	4,495,000
Child Development Center	2005	1,775,000	3.50 to 5.0%	12	2017	1,775,000
Student Union III	2005	4,890,000	3.50 to 5.0%	22	2027	4,890,000
Student Union III RB#2	2006	5,190,000	3.50 to 5.0%	22	2028	5,190,000
PE Addition/Renovation	2006	6,035,000	3.50 to 5.0%	23	2029	6,035,000
PE Bldg Addition, Phase II	2006	2,800,000	3.50 to 5.0%	23	2029	2,800,000
Krasnow Institute Addition	2006	1,955,000	3.50 to 5.0%	21	2027	1,955,000
Patriot Center						
Addition/Renovation	2006	8,200,000	3.50 to 5.0%	22	2028	8,200,000
PW Bio Containment Lab	2006	13,260,000	3.50 to 5.0%	23	2029	13,260,000
PW Performing Arts Center	2006	10,790,000	3.50 to 5.0%	23	2029	10,790,000
Fairfax Surge Space Fit Out	2006	1,515,000	3.50 to 5.0%	22	2028	1,515,000
Farifax Surge Space Building	2006	<u>6,340,000</u>	3.50 to 5.0%	22	2028	<u>6,340,000</u>
Total		<u>\$149,820,000</u>				<u>\$119,080,000</u>

9. INSTALLMENT PURCHASES PAYABLE

The University has entered into various installment purchase contracts to finance the acquisition of photocopiers, office modulars, and other equipment. In April 2005, the University entered into a Master Lease Agreement with the SunTrust Leasing Corporation to finance the acquisition of the equipment necessary for the implementation of the Energy Performance Contract Agreement. The principal amount of \$11,635,178 with an interest rate of 3.81 percent is being repaid quarterly. The first payment was due in September 2006. The final payment will be due in 2021.

In January 2007, the University entered into a new installment purchase agreement for a Licor DNA Analyzer Sequencer at a cost of \$20,557. The term is for three years with an interest rate of 3.97 percent. The final payment is due in 2010. The remaining length of the purchase agreements range from one to fifteen years and the interest rates range from 2.47 to 4.14 percent.

Principal and interest payments on these commitments for fiscal years subsequent to June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,031,340	\$ 456,754	\$ 1,488,094
2009	969,052	424,031	1,393,083
2010	810,717	385,615	1,196,332
2011	735,971	356,128	1,092,099
2012	742,598	328,275	1,070,873
2013-2017	4,167,860	1,186,506	5,354,366
2018-2022	<u>3,954,662</u>	<u>328,830</u>	<u>4,283,492</u>
Total	<u>\$12,412,200</u>	<u>\$ 3,466,139</u>	<u>\$15,878,339</u>

10. COMPONENT UNIT DEBT

A. Long Term Debt

On October 7, 2003, the Foundation issued \$35,125,000 of variable rate Fairfax County Economic Development Authority bonds. \$27,700,000 of the bonds were used to finance a housing project for the University and the remaining \$7,425,000 were used to refinance existing properties the Foundation owns and rents to the University. Interest is accrued and paid monthly, the bonds mature annually on February 1 and the final maturity is on February 1, 2029. Additionally, the Foundation simultaneously entered into an interest rate swap with a commercial bank to effectively fix the interest rate on \$22,425,000 of the bonds.

As a security for the payment of the bonds, the Foundation entered into an irrevocable letter of credit with a commercial bank in the initial amount of \$35,593,333 at 12 percent per annum and expiring on October 15, 2008. As of June 30, 2007, no draws have been taken against the letter of credit; however, due to principal payments on the bonds, the letter of credit amount as of June 30, 2007, was reduced to \$32,497,600. As of June 30, 2007, the principal balance outstanding on the bonds was \$32,070,000.

Beginning on June 30, 2005, restrictive covenants related to the bond went into effect, including unrestricted liquidity of not less than \$6,000,000 and a property debt service coverage ratio of not less than 1.20 to 1. As of June 30, 2007, the Foundation was in compliance with the required restrictive covenants.

Interest incurred on the bonds as well as the related swap agreement during fiscal year 2007 totaled \$1,402,338.

On September 24, 2004, GMUF Arlington Campus, LLC secured a \$61 million construction/mini-permanent loan with a consortium of banks and secured by a deed of trust in the property on 3434 North Washington Street and the improvements to be made on the property. The terms of the loan are seven years floating at LIBOR plus 2.25 percent. Concurrently, the GMUF Arlington Campus, LLC entered into a forward swap agreement with a financial institution to synthetically lock the interest rate at 6.96 percent for years three through seven. The loan requires monthly payments of interest only for 24 months and then will be amortized on a 25-year basis thereafter. This loan was paid off on August 18, 2006 resulting in zero balance outstanding at June 30, 2007.

In addition to the \$61 million dollar loan, the Foundation entered into a \$6 million loan agreement for five years at a floating rate of LIBOR plus 2.25 percent. This second loan is secured by real property owned by the Foundation at a cost of approximately \$10.4 million and by \$823,000 of fixed income marketable securities. The proceeds from that loan have been deposited into an investment account with a financial institution guaranteed to earn income at the rate of LIBOR plus 1.25 percent locking in the negative arbitrage for the Foundation at 1 percent. This loan requires monthly payments of interest only with a principal payment of \$1 million due at the end of both year three and year four with the balance due September 2009. This loan was paid off on August 18, 2006, resulting in zero balance outstanding at June 30, 2007.

On August 18, 2006, GMUF Arlington Campus, LLC secured a permanent 10-year \$68,500,000 loan by executing a deed of trust with a financial institution. There are two notes ("A note" and "B note") under the deed of trust with the A note for \$64,000,000 at a fixed interest rate of 6.24 percent per annum, two years interest only, with 30 year amortization thereafter, and the B note for \$4,500,000 at a fixed interest rate of 10.50 percent per annum, two years interest only, with a 30 year amortization thereafter. The resulting blended rate for the two notes is 6.52 percent.

On February 16, 2007, GMUF Arlington Campus, LLC secured an additional seven-year \$1,300,000 collateral loan with United Bank. The note has a fixed interest rate of 6.3 percent.

In fiscal year 2007, interest expense on all GMUF Arlington Campus, LLC loans totaled \$4,357,182.

Long-term debt at June 30, 2007	\$101,870,000
Less: Current portion	<u>(800,000)</u>
Non-current portion	<u>\$101,070,000</u>

The following are maturities of the long-term debt for the next five years ending June 30:

2008	\$ 800,000
2009	1,354,480
2010	1,609,922
2011	1,685,004
2012	1,776,360
Thereafter	<u>94,644,234</u>
Total	<u>\$101,870,000</u>

B. Derivative Instruments

In October 2003, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$22,425,000 at a fixed interest rate of 4.56 percent, including all costs, on a 20-year amortization schedule. Concurrently, the Foundation entered into a 20-year interest rate cap agreement with the same financial institution in the notional amount of \$12,700,000, at a rate of 10 percent. At June 30, 2007, the notational amount on the swap was \$20,300,000 and on the cap was \$11,900,000. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the bonds and to eliminate changes in the market interest rates.

The fair value of the interest rate swap at June 30, 2007 totaled a derivative liability of \$60,469 and the interest rate cap at June 30, 2007 totaled a derivative asset of \$2,476. The net change in value has been recorded as an unrealized loss on derivative in the statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2024.

On September 24, 2004, GMUF Arlington Campus, LLC entered into a forward interest rate swap agreement with a financial institution to lock the interest rate at 6.96 percent for years three through seven related to their \$61 million construction/mini-permanent loan. The interest rate swap was used as a cash flow hedge to synthetically fix the rate of the loan and to eliminate changes in the market interest rates. On August 18, 2006, the forward interest rate swap was unwound and settled for \$1,058,000, resulting in a realized loss on derivative of \$984,456 in the statement of activities.

In October 2006, the Foundation entered into an interest rate swap agreement with a financial institution against the floating rate bonds in the notional amount of \$25,775,000 on a 23-year amortization schedule. At June 30, 2007, the notational amount on the swap was \$25,775,000. The swap was used as a cash flow hedge to stabilize the interest rate for the last five years of the bond issue related to the student housing project and expects to create positive cash flows over the remaining bond life. At closing on October 19, 2006, the Foundation received \$250,000 up front cash. Under the swap agreement, beginning in February 2007 the Foundation will receive the difference between the Bond Market Association ("BMA") index and 68.48 percent of the 5 year LIBOR index from the swap provider. If the BMA index is higher than 68.48 percent of the 5 year LIBOR index, the Foundation paid the difference to the swap provider. Through June 30, 2007, the Foundation paid \$18,484 to the swap provider.

The fair value of the interest rate swap at June 30, 2007 totaled a derivative liability of \$161,543. The net change in value has been recorded as an unrealized loss on derivative in the statement of activities. Additionally, all assets or liabilities related to the interest rate swap and interest rate cap convert to zero at contract maturity in 2029.

11. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Goods and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$138,952,193	\$32,966,392	\$ 21,681,844	\$ -	\$ -	\$193,600,429
Research	28,019,660	5,118,532	12,838,238	-	-	45,976,430
Academic Support	23,962,254	7,877,720	6,673,170	-	-	38,513,144
Student Services	12,091,072	3,050,059	3,568,803	-	-	18,709,934
Public Services	5,976,563	1,329,382	4,534,214	-	-	11,840,159
Operation and Maintenance of Plant	8,328,799	2,833,459	16,335,705	-	-	27,497,963
Institutional Support	21,637,757	8,441,012	8,265,466	-	-	38,344,235
Depreciation Expense	-	-	-	-	24,986,173	24,986,173
Scholarships and Fellowships	-	-	-	13,620,385	-	13,620,385
Auxiliary Enterprises	<u>19,587,359</u>	<u>4,859,852</u>	<u>44,159,392</u>	<u>-</u>	<u>-</u>	<u>68,606,603</u>
Totals	<u>\$258,555,657</u>	<u>\$66,476,408</u>	<u>\$118,056,832</u>	<u>\$ 13,620,385</u>	<u>\$ 24,986,173</u>	<u>\$481,695,455</u>

12. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

The University receives appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements. The following is a summary of General Fund appropriations received by the institution including all supplemental appropriations and reversions:

Original appropriation	\$ 129,492,938
Reduction for General Fund Portion of June 30, 2006 Payroll	(5,250,236)
Central adjustments for salary and benefits:	
Increased employee mileage reimbursement	17,208
Group life rate increase	266,870
Retirement rate adjustments	580,774
Retiree health credit rate adjustment	24,261
Health insurance premium increase	929,472
VSDP rate adjustment	105,131
Salary increase – state employees	753,554
Salary increase – pay practices	92,192
Funds for VIVA Program	<u>23,508</u>
Final appropriation	127,035,672
Cash Reversion	<u>(114,035)</u>
Final Appropriation, net of cash reversion	<u>\$ 126,921,637</u>

13. INTEREST EXPENSE

During 2007, the University incurred interest expense totaling \$9,073,581. Of this amount, \$3,727,687 was capitalized as part of the cost of construction and \$5,345,894 was expensed.

14. PRIOR PERIOD ADJUSTMENTS

In May 2007, the Commonwealth implemented new reporting guidelines for capital appropriations under the Department of Treasury's GOB and VCBA 21st Century bond reimbursement programs. This change in accounting methodology affects the calculation of capital appropriations available and net assets invested in capital assets, net of related debt on the Statement of Net Assets, and capital appropriations revenue on the Statement of Revenues, Expenses, and Changes in Net Assets. Appropriations available are included in Due from the Commonwealth on the Statement of Net Assets. Capital appropriations revenue is reported as other revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

Under the new reporting guidelines, appropriations available represent unreimbursed expenses at June 30 on capital projects funded by the Treasury bond reimbursement programs. Appropriations revenue is recognized for reimbursements received during the current fiscal year, less reimbursements of prior year expenses, plus unreimbursed expenses at June 30.

If the new reporting guidelines had been in effect for Fiscal Year 2006, appropriations revenue and appropriations available would have been \$5,953,335 lower than reported on the Fiscal Year 2006 financial statements. The resulting difference in Net Assets invested in capital assets, net of related debt is reported in Fiscal Year 2007 as a prior period adjustment to beginning net assets.

Also during fiscal year 2007, an overstatement was discovered in the amounts reported as capitalized interest expense for buildings and construction-in-progress in fiscal years 2004 through 2006. The cumulative effect of this error was an overstatement at June 30, 2006, of buildings by \$817,858, and construction-in-progress by \$1,691,789. The resulting overstatement of net assets invested in capital assets, net of related debt of \$2,509,647 is reported in Fiscal Year 2007 as a prior period adjustment to beginning net assets.

In addition, during Fiscal Year 2007 an error was discovered in the accrual of revenue on grants and contracts in prior years whereby revenue and expense were not properly matched due to a lag in the recognition of revenue related to payroll and direct expenses recorded after year end. Revenue should have been accrued in the same manner the related expenses were accrued. The cumulative effect of the error at June 30, 2006, was an understatement of grants and contracts receivable (restricted), and net assets restricted expendable, of \$2,974,038 each. The understatement of net assets restricted expendable is reported in Fiscal Year 2007 as a prior period adjustment to beginning net assets.

15. COMMITMENTS

A. Operating Leases

The University is committed under various operating leases for rental of off-campus facilities. The leases are for one to ten year terms. Facility rental expenses for the fiscal year ended June 30, 2007 were \$4,801,967. The University had, as of June 30, 2007, the following total future minimum rental payments due under these leases:

Year Ended June 30,

2008	\$ 4,985,815
2009	4,870,941
2010	4,509,931
2011	4,235,904
2012	<u>1,909,064</u>
Total	<u>\$20,511,655</u>

B. Construction

Outstanding commitments for capital outlay projects that were under construction at June 30, 2007 were \$27,033,099.

16. RETIREMENT AND PENSION SYSTEMS

A. Virginia Retirement System (VRS)

Substantially all full-time classified salaried employees of the University participate in the defined benefit retirement plan administered by VRS. The VRS is an agent multiple-

employee public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). Because the employees of the University are also employees of the Commonwealth, the Commonwealth of Virginia and not the University has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2007. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$8,069,923 for the year ended June 30, 2007. The retirement contribution rate was 10.7 percent for fiscal year 2007. Contributions to VRS were calculated using the base salary amount of approximately \$75,296,673 for the year ended June 30, 2007.

The University's law enforcement officers participate in the Virginia Law Officers' Retirement System (VaLORS). The University's expenses include the amount assessed by the Commonwealth for contributions to VaLORS, which totaled approximately \$473,308 for the year ended June 30, 2007. The VaLORS retirement contribution rate was 17.0 percent for fiscal year 2007. Contributions to VaLORS were calculated using the base salary amount of approximately \$2,784,751 for the year ended June 30, 2007.

The University's expenses include the amount assessed by the Commonwealth for contributions to the VRS Alternative Severance Option early retirement program, which totaled approximately \$408,823 for the year ended June 30, 2007. Contributions were determined by formula based on years of service and annual salary.

The University's total payroll was approximately \$248,891,272 for fiscal year 2007.

B. Faculty Retirement Plans

Most full-time faculty and certain administrative staff participate in one faculty retirement plan with two investment providers other than the VRS. These are defined contribution plans where the retirement benefits received are based upon the employer's 10.4 percent contribution plus interest and dividends. Individual contracts issued under the plan provide for full and immediate vesting of the University's contributions. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these plans were approximately \$12,109,475 for the year ended June 30, 2007. Contributions were calculated using the base salary of approximately \$116,919,675 for fiscal year 2007. The University's total payroll for fiscal year 2007 was approximately \$248,891,272. The following schedule summarizes the cost and participation in the optional retirement plans.

<u>Faculty Retirement Plans</u>	<u>Retirement Pension Cost</u>	<u>Plan's Covered Payroll</u>	<u>Contribution Percentage</u>
TIAA-CREF*	\$9,154,190	\$88,334,666	10.4%
Fidelity Investments	<u>2,955,285</u>	<u>28,585,009</u>	10.3%
Total	<u>\$12,109,475</u>	<u>\$116,919,675</u>	

*Teachers Insurance and Annuity Association/College Retirement Equities Fund

C. Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$774,802 for the fiscal year ended June 30, 2007.

17. POST-RETIREMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance program which provides post employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the State health plan. Information related to these plans is available at the statewide level in the Commonwealth's CAFR.

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft, or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The Department of Human Resource Management administers the Commonwealth employee health care and worker's compensation plans, and the Department of Treasury, Division of Risk Management, administer the risk management insurance plans. Risk management insurance includes property, general liability, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's CAFR.

19. SUBSEQUENT EVENTS

In July 2007, the University executed a \$10,500,000 construction contract with P.J. Dick Incorporated for construction management services on the Patriot Center Renovation Project.

In July 2007, the University executed a \$54,931,000 contract with Edgemoor Real Estate Services, LLC for construction and other services related to the PPEA (Public-Private Education Facilities and Infrastructure Act) comprehensive agreement for the Academic VI/Research II Building Project.

In August 2007, the University executed a \$27,488,000 construction contract with Donley's LLC for design-build services on the Parking Deck III Project.

In September 2007, the University executed a \$24,184,527 construction contract with Gilbane Building Company for construction management services on the PE Building Renovation Project.

In October 2007, the University executed a \$22,284,000 construction contract with Donley's LLC for construction management services on the Academic V Building Project.

In October 2007, the University executed a \$66,534,000 construction contract with Manhattan Construction Company for construction management services on the Arlington II Building Project.

In February 2008, the University executed a \$38,073,600 construction contract with Whiting-Turner Contracting Company for construction management services on the Prince William Performing Arts Center Project.

In February 2008, the University executed a \$43,801,887 construction contract with Dustin Construction, Inc. for design-build services on the Student Housing VII-C Project.

In October 2007, the University entered into eleven promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds, Series 2007A issued by the VCBA under its Pooled Bond Program. Seven of the notes are being used to finance the construction of the Prince William Performing Arts Center (\$8,565,000), Parking Deck III (\$20,750,000), the Fairfax Surge Space Fit Out Data Center (\$2,965,000), the Academic VI/Research II Building (\$4,945,000), the Softball Field Complex (\$1,510,000), the Hotel and Conference Center (\$18,000,000), and Student Union III Building (\$6,130,000). Four of the notes are being used to finance additions and/or renovations to the Physical Education Building (\$8,555,000), the Student Union II Building (\$1,490,000), the Physical Education Building Phase II (\$3,820,000), and the Student Union I Building (\$5,085,000). Payments on all eleven of the notes will be made semi-annually with an interest rate ranging from 4.5 to 5 percent. The final payments for the renovation of the Student Union II Building and the construction of the Softball Field Complex will be due in 2017. Final payments for addition/renovation of the Physical Education Building, the construction of the Fairfax Surge Space Fit Out Data Center, the construction of the Academic VI/Research II Building, the construction of the Prince William Performing Arts Center, the addition/renovation of the Physical Education Building Phase II, and the renovation of Student Union I Building will be due in 2027. Final payments for construction of the Student Union III Building and Parking Deck III will be due in 2032. In 2038, the final payment will be due for the construction of the Hotel Conference Center.

In November 2007, the Commonwealth Treasury Board completed the sale of the General Obligation Bonds, Series 2007B, proceeds of which are being used to finance the construction of Student Housing VII-C and Entrance Road (\$15,495,000) and Student Housing VII (\$2,010,000), and the renovation of Presidents Park (\$3,130,000). Payments on the bonds will be made semi-annually with an interest rate ranging from 4 to 5 percent. The final payment for the renovation of Presidents Park will be due in 2017. The final payments for the construction of Student Housing VII-C and Entrance Road, and Student Housing VII, will be due in 2032.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 24, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
George Mason University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component unit of **George Mason University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit, the George Mason University Foundation, which is discussed in 1A. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component unit of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that was audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of George Mason University as of June 30 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages three through eight is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Improve Timeliness of Financial Reporting Controls," which is described in the section titled "Internal Control and Compliance Findings and Recommendations," to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose

all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Properly Complete Employment Eligibility Verification Forms" is described in the section titled "Internal Control and Compliance Findings and Recommendations".

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on April 24, 2008.

AUDITOR OF PUBLIC ACCOUNTS

AWP/wdh

April 30, 2008

Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2007 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference held April 24, 2008

George Mason University acknowledges and concurs with the two audit findings. The following contains the APA findings and management's response to the concerns and issues raised.

APA Finding: Improve Timeliness of Financial Reporting Controls

Generally Accepted Auditing Standards require the auditor to consider whether a control deficiency exists when the design or operation of a control does not allow management or their employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The standard provides specific indicators the auditor should regard as at least a significant deficiency and a strong indicator of a material weakness in internal control.

During the current reporting period the University made the following prior period adjustments to its financial statements:

- A prior period adjustment for improper matching of revenues and expenses resulting in a \$2.9 million increase in beginning net assets and a current year adjustment to increase revenue and receivables for the same reason in the amount of \$2.3 million; and
- A prior period adjustment to capitalize interest resulting from a cumulative error in Construction in Progress from fiscal year 2004 through 2006 resulting in a \$2.5 million decrease in beginning net assets.

Also, during the audit which we conducted after the University prepared and released its financial statements, the University staff found the financial statements required the following reclassification.

- A reclassification to increase accounts receivable and deferred revenue by \$2.6 million to record summer term revenue earned but not received. The University made this reclassification two months after the audit began and eight months after the fiscal year end.

While any individual issue above may not have warranted concern, the number of changes which occurred after the issuance of the statements indicates a significant need to review the preparation and accuracy of the financial statement process. We recommend that the University's management review the internal controls over financial reporting to ensure that processes are sufficient to address identified risks more timely.

Management's Response

George Mason University is committed to continuous improvement of its controls related to financial reporting. The process is well documented but complex. In accordance with state accounting, the books are maintained utilizing the cash basis of accounting. All funds and accounts are coded to achieve balanced downloads of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and more than 23,000 individual account balances underlying the statements. Approximately one hundred entries are posted to these cash basis statements to generate accrual basis statements in accordance with generally accepted accounting principles.

The University acknowledges that the reclassification on the current year's Statement of Net Assets was posted late. Management respectfully disagrees, however, with the statement that its financial statements were "released". Although the financial statement amounts were provided to the Department of Accounts for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR), management did not consider them released at that time since they are immaterial to the CAFR. The period before and during the audit was utilized by management to continue its review. The reclassification would not have been posted nor would it result in a prior period adjustment had the statements been released.

The process is governed by written procedures which are augmented during each annual financial reporting cycle. Each prior year entry is evaluated for impact on the current year's statements. Every entry is prepared, initialed and dated, then reviewed, initialed and dated. During fiscal year 2007 an additional CPA was added to the staff responsible for financial statement preparation to provide more detail review of extensive supporting schedules and resulting entries. The University believes these enhancements to its financial reporting process and structure will improve its ability to detect all adjustments on a timelier basis.

APA Finding: Properly Complete Employment Eligibility Verification Forms

George Mason University (GMU) is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274). The guidance requires the employee complete, sign and date Section 1 of the I-9 on the first day of employment. Additionally, the employer or designated representative must complete, sign and date Section 2 of the I-9 within three business days of employment.

Furthermore, Section 2 contains spaces for the employer to list the documents they verified from Lists A or B and C. For US Citizens, the employer must verify one document from List A. If no documentation from List A is available for the US Citizen, the employee must provide one document from List B and one from List C, which the employer verifies and records on the I-9. For foreign nationals authorized to work in the United States, the employer only needs to verify and list the employee's unexpired foreign passport and a current, unexpired INS authorization to work on the I-9.

In our sample of forty-eight I-9 forms reviewed for fiscal year 2007, we only found seventeen I-9 forms correctly completed by GMU. In our sample, we observed the following error rates.

- a. 40 percent failed to list the first day of employment in Section 2;
- b. 19 percent failed to provide sufficient information from the verification documents, such as document number (examples: driver's license number or social security number); expiration date, or issuing authority;
- c. 4 percent failed to have the employee sign and/or date the form on the first date of employment;
- d. 6 percent were not verified by the Employer within 3 business days of the employment start date;
- e. 6 percent were signed and dated by the employee after the employment start date listed in Section 2 on the I-9;
- f. 8 percent listed the verification documents in the incorrect sections (examples: List A and B, List A and C);
- g. 2 percent failed to completely fill in the Employer's information (Print Name, Title, Address, Organization Name, Date); and
- h. 8 percent of the I-9s were not found on file for the employee.

We recommend that the Human Resources Division train human resource employees on the requirements of completing I-9s and then develop a process for continuously reviewing GMU's I-9 process. The federal government has stepped up its enforcement efforts related to hiring illegal immigrants, which makes having a good I-9 process in place more important than ever before.

Management's Response

In January 2007, the University changed its procedures for in-processing new full-time salaried faculty and classified staff. These new employees are required to report to the NEW (New Employee Welcome) Center located in the Human Resources office on or before their first day of work, in order to complete a number of documents including the I-9 form. Human Resources employees who staff the NEW Center are trained in the requirements for completing I-9 forms. In addition, during summer 2007, the University initiated a comprehensive training program for university employees who are responsible for completing I-9 forms for wage, student wage, graduate assistants, and adjuncts. Employees who attend training are provided a notebook with federal regulations, a checklist, and associated training materials. Human Resources staff offers this training three times per year and sends periodic reminders to departmental liaisons about the importance of correctly completing I-9 forms. The Human Resources Office has now amended the online I-9 Form to include complete employer address information for University use. Finally, the University plans to hire a part time summer employee to review all employee files for properly completed I-9 forms. Employees whose forms are incomplete or incorrect will be contacted to provide complete and correct information.

Sincerely,

A handwritten signature in dark ink, appearing to read "Maurice W. Scherrens". The signature is fluid and cursive, with a long horizontal stroke at the end.

Maurice W. Scherrens

GEORGE MASON UNIVERSITY

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